

HART SCHAFFNER & MARX



Forty-fourth Annual Report
November 30, 1954

EXECUTIVE OFFICES

36 SOUTH FRANKLIN STREET
CHICAGO 6, ILLINOIS



BOARD OF DIRECTORS

EUGENE BASHORE	JOSEPH HALLE SCHAFFNER
JOHN D. GRAY	JOEL SPITZ
MEYER KESTNBAUM	CLAY E. STEELE
HARRY L. WELLS	



OFFICERS

MEYER KESTNBAUM	President
JOHN D. GRAY	Vice-President
MORRIS GREENBERG	Vice-President
BERNARD A. RITTERSPORN	Vice-President
MARIO CIUCCI	Vice-President
L. G. JOHNSON	2nd Vice-President
CLAY E. STEELE	Secretary and Treasurer
R. W. GARBE	Comptroller
MORRIS NEUFELD	Assistant Secretary and Assistant Treasurer



TRANSFER AGENTS

The First National Bank of Chicago
Chicago 90, Illinois
Bankers Trust Company
New York 15, N. Y.

REGISTRARS

Continental Illinois National Bank and Trust Company of Chicago
Chicago 90, Illinois
The New York Trust Company
New York 15, N. Y.

HART SCHAFFNER & MARX

CHICAGO

NEW YORK

March 7, 1955

To the Stockholders:

The annual report of your company for the fiscal year 1954 submitted herewith reflects the trends which were noted a year ago. Our manufacturing operations during the early part of the year were affected by lagging retail sales and by the disposition on the part of retailers generally to reduce their inventories. As was anticipated retail sales improved during the latter part of the year. It is evident that many retailers were unduly cautious and that stocks of desirable clothing are low. During the last few months we have experienced a healthy re-order business, but for the year as a whole Consolidated Sales were \$66,575,717 as compared with \$68,866,677 for 1953. Net profits were \$1,228,566 as compared with \$1,425,196 for the previous year.

From the point of view of the company the most significant development of the year was the acquisition of the clothing manufacturing business of Society Brand Clothes, Inc., proprietors of one of the oldest and best known brands in the industry. We have established a separate division of the company for the aggressive promotion of this product which has been distributed by several hundred leading stores throughout the country. We are in the process of equipping a new factory in which Society Brand Clothes will be made by the same skilled workers who were identified with that company for many years. The response of our Society Brand customers to these developments has been most encouraging.

At this time last year we announced plans for the opening of two new Wallach stores in the New York area. The Cross County store in Yonkers was opened last September and has developed a volume that has exceeded our expectations. Within a few weeks we plan to announce the opening of the newest and most important Wallach

unit at 46th Street and Fifth Avenue. The new Wallach units and the additional manufacturing facilities for the Society Brand production account for the bulk of investment in improvements and fixed assets made during the year.

In order to provide for increased working capital arrangements were made during the year to refinance the 3½% Sinking Fund Debentures of \$6,000,000 and \$2,000,000 which had been sold to the Equitable Life Assurance Society of The United States in 1948 and 1949 respectively, and which had been reduced to \$4,765,000 on June 1, 1954. These debentures have been retired and we have issued a new 3⅝% note in the amount of \$7,265,000, payable in annual installments over a fifteen-year period. The first installment of \$590,000, due on June 1, 1955, is included in current liabilities. Accordingly, the balance sheet reflects an increase of \$1,880,000 in the Funded Debt of the parent company as compared with the end of the previous year, and a reduction of \$3,921,289 in current bank indebtedness. As at January 31 notes payable to banks had been reduced to \$1,000,000, but this indebtedness will increase with seasonal requirements.

While our industry remains highly competitive and profit margins are narrow we are encouraged by the prospects for the current year. Retail stocks generally are in a healthy relationship to sales. Consumer interest in clothing has been greatly stimulated by new developments in colors and by new style trends. We look forward to a more satisfactory year with respect to both volume and earnings.

Respectfully submitted,

MEYER KESTNBAUM
President

HART SCHAFF
AND SUBSIDIARIES
CONSOLIDATED
As of November

Assets

	1954	1953
Current Assets:		
Cash	\$ 3,279,178	\$ 2,374,281
Notes and accounts receivable—		
Trade, less allowances for doubtful balances and discounts	8,670,590	8,927,293
Other	349,689	324,018
Inventories—		
Factory inventories at cost or market, whichever is lower for current season's goods and estimated realizable value for past seasons' goods; retail stores' inventories at cost or market whichever is lower	19,631,948	22,398,507
Prepaid rentals, insurance, supplies, etc.	718,914	657,544
Total current assets	<u>\$32,650,319</u>	<u>\$34,681,643</u>
Other Assets:		
U. S. Government securities (at cost) on deposit under lease agreements	\$ 69,580	\$ 62,113
Sundry investments	89,233	89,833
Cash surrender value of life insurance policies	129,694	126,307
	<u>\$ 288,507</u>	<u>\$ 278,253</u>
Properties, at cost:		
Building, shop equipment, furniture and fixtures	\$10,749,893	\$10,281,595
Less—Accumulated depreciation	5,564,999	5,081,184
	<u>\$ 5,184,894</u>	<u>\$ 5,200,411</u>
Leaseholds and leasehold improvements, less amortization	5,373,793	5,387,405
Land	748,341	748,341
	<u>\$11,307,028</u>	<u>\$11,336,157</u>
Goodwill, Trade Names and Trade-Marks,		
At record value	<u>\$ 1</u>	<u>\$ 1</u>
	<u>\$44,245,855</u>	<u>\$46,296,054</u>

ERNER & MARX
RY COMPANIES

BALANCE SHEET

30, 1954 and 1953

Liabilities

	1954	1953
Current Liabilities:		
Notes payable	\$ 3,078,711	\$ 7,000,000
Current maturities of funded debt	660,000	690,000
Accounts payable—		
Trade	2,717,616	3,290,401
Other	1,103,084	976,701
Accrued salaries, wages and rents	970,794	980,709
Accrued taxes (other than taxes on income)	443,068	416,207
Federal and State taxes on income	1,154,100	1,322,123
Total current liabilities	\$10,127,373	\$14,676,141
Funded Debt:		
3 ⁵ / ₈ % note payable, due June 1, 1969	\$ 7,265,000	
3 ¹ / ₂ % sinking fund debentures, due June 1, 1963		\$ 5,385,000
Note payable by subsidiary company due January 31, 1956	210,000	280,000
	\$ 7,475,000	\$ 5,665,000
Less—Current maturities transferred to current liabilities	660,000	690,000
	\$ 6,815,000	\$ 4,975,000
Advance by lessor toward leasehold improvements by subsidiary company payable monthly over lease expiring in 1977	225,689	232,121
	\$ 7,040,689	\$ 5,207,121
Minority Stockholders' Interest	\$ 125,714	\$ 132,684
Stockholders' Equity:		
Common stock—authorized and issued—375,000 shares par value \$10.00 each	\$ 3,750,000	\$ 3,750,000
Capital surplus (1954 increase of \$3,564 resulting from acquisition of capital stock of subsidiary companies)	2,069,964	2,066,400
Earnings retained for use in the business—		
Appropriated for contingencies	700,000	700,000
Unappropriated, per accompanying statement	20,908,672	20,240,265
	\$27,428,636	\$26,756,665
Deduct—Treasury stock—24,900 ¹ / ₂ shares	476,557	476,557
	\$26,952,079	\$26,280,108
	\$44,245,855	\$46,296,054

See Notes to Financial Statements.

HART SCHAFFNER & MARX
AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF INCOME
AND UNAPPROPRIATED RETAINED EARNINGS

For the fiscal years ended November 30, 1954 and 1953

	1954	1953
Net sales and operating revenues	\$66,575,717	\$68,866,677
Dividends from sundry investments, interest and other income	145,996	119,668
Total	<u>\$66,721,713</u>	<u>\$68,986,345</u>
Less:		
Cost of goods sold and occupancy expenses (exclusive of depreciation and amortization)	\$47,530,205	\$49,436,565
Depreciation and amortization	928,866	933,992
Selling, general and administrative expenses	15,157,914	15,128,903
Interest paid	400,099	430,030
Sundry income deductions	11,830	1,757
Minority interest in net profits of subsidiaries	3,528	13,422
	<u>\$64,032,442</u>	<u>\$65,944,669</u>
Income before deducting provision for taxes	<u>\$ 2,689,271</u>	<u>\$ 3,041,676</u>
Provision for taxes on income:		
Federal normal income tax and surtax	\$ 1,431,657	\$ 1,580,005
State income taxes	29,048	36,475
	<u>\$ 1,460,705</u>	<u>\$ 1,616,480</u>
Net income for the year	<u>\$ 1,228,566</u>	<u>\$ 1,425,196</u>
Earnings retained for use in the business at beginning of year	20,240,265	19,375,228
	<u>\$21,468,831</u>	<u>\$20,800,424</u>
Dividends paid in cash \$1.60 per share	560,159	560,159
Earnings retained for use in the business at end of year	<u>\$20,908,672</u>	<u>\$20,240,265</u>

See Notes to Financial Statements

REPORT OF ACCOUNTANTS

To the Board of Directors of
Hart Schaffner & Marx:

In our opinion, the accompanying financial statements present fairly the consolidated position of Hart Schaffner & Marx and subsidiary companies at November 30, 1954, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. This opinion is based on an examination of the statements which was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

PRICE WATERHOUSE & CO.

CHICAGO, ILLINOIS

January 24, 1955

NOTES TO FINANCIAL STATEMENTS

Under the terms of the agreement for the $3\frac{5}{8}\%$ note payable, due June 1, 1969, \$19,490,265 of the total consolidated unappropriated retained earnings at November 30, 1954, is restricted as to payment of cash dividends.

The unpaid cost with respect to past service benefits under the retirement annuity plan for employees established in 1946 amounted to approximately \$270,000 at November 30, 1954.

As at November 30, 1954, the Company and its subsidiaries occupied properties under seventy-five lease agreements with terms expiring from one to forty-three years after that date, and requiring a minimum rental payment of approximately \$1,841,000 for 1955. Certain of the leases provide for the payment of taxes by the lessees and additional rental based upon a percentage of sales in excess of stipulated minimums.

TEN YEAR

	1954	1953	1952	1951
Net Sales and Operating Revenue	\$66,575,717	\$68,866,677	\$62,263,140	\$61,672,439
Federal Income Taxes Per Share	1,431,657 4.09	1,580,005 4.51	807,453 2.31	1,721,211 4.92
Net Earnings After Federal Income Taxes Per Share	1,228,566 3.51	1,425,196 4.07	1,035,420 2.96	1,518,752 4.34
Dividends Paid in Cash Per Share	560,159 1.60	560,159 1.60	560,159 1.60	567,412 1.60
Earnings Retained in the Business	668,407	865,037	475,261	951,340
Property Additions*	939,179	245,118	511,656	1,290,444
Current Assets	32,650,319	34,681,643	31,226,448	31,051,499
Current Liabilities	10,127,373	14,676,141	12,129,777	12,571,725
Net Working Capital	\$22,522,946	20,005,502	19,096,671	18,479,774
Fixed Assets—Less Depreciation and Amortization	11,307,028	11,336,157	12,038,940	11,902,302
Net Worth Per Share	26,952,079 76.98	26,280,108 75.06	25,415,675 72.60	24,387,368 69.66

*Retail store leasehold improvements and equipment — Real Estate — Factory Building and manufacturing equipment, exclusive of properties acquired through purchase of subsidiary companies.

**During 1949 the company issued an additional \$2,000,000 of 3½% sinking fund debentures, the proceeds from which (less \$485,000 payable in 1950 which is included in current liabilities of 1949) were added to working capital.

SUMMARY

1950	1949	1948	1947	1946	1945
\$59,257,388	\$57,773,088	\$63,037,888	\$56,527,917	\$45,808,460	\$33,805,246
1,217,049 3.43	975,298 2.75	2,025,253 5.71	2,307,804 6.51	2,202,476 6.07	2,247,479 6.32
1,647,733 4.65	1,638,746 4.62	2,927,852 8.26	3,284,384 9.26	3,423,126 9.44	1,645,860 4.63
780,192 2.20	851,118 2.40	851,118 2.40	855,678 2.40	644,518 1.80	569,252 1.60
867,541	787,628	2,076,734	2,428,706	2,778,608	1,076,608
2,098,111	2,419,324	3,476,655	3,203,618	1,632,412	442,079
29,724,708 11,496,923	24,786,344 5,852,690	28,033,290 10,088,636	22,121,816 9,090,219	20,179,895 6,416,958	16,964,572 4,373,192
18,227,785	**18,933,654	†17,944,654	13,031,597	13,762,937	12,591,380
11,357,234	10,032,562	8,385,328	5,547,903	2,604,087	1,292,600
23,509,594 66.29	22,620,580 63.79	21,832,952 61.57	19,756,218 55.71	17,580,661 48.48	14,528,053 41.28

†In 1948 the company issued \$6,000,000 of 3½% sinking fund debentures, the proceeds from which (less \$400,000 payable in 1949 and included in current liabilities of 1948) were added to working capital.

‡During the year 1954 the 3½% debentures of \$4,765,000 were retired and a new 3⅝% note in the amount of \$7,265,000 payable in annual installments over a fifteen year period was issued. The net proceeds of \$2,500,000 (less \$590,000 payable in 1955 which is included in current liabilities of 1954) were added to working capital.

